

Historical Expenditures from NCLB Funding Sources

Expenditures from NCLB funding sources excluding Impact Aid increased over \$6.6 million or approximately 16% over 2002 levels while overall statewide total expenditures from NCLB funding sources increased over \$14 million or 19.6% in SFY 2003. In SFY 2004, expenditures continued to increase for most of the key NCLB programs. For example, Title I, Part A expenditures increased from \$23.7 million in SFY 2003 to \$30.4 million in SFY 2004 and the State Assessments program increased from \$175 thousand in SFY 2003 to \$2.0 million in SFY 2004. (See Table 4.1).

| | | PRE NCLB | | | POST NCLB | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| | SFY 1999 | SFY 2000 | SFY 2001 | SFY 2002 | SFY 2003 | SFY 2004 |
| Federal Program | Actual | Actual | Actual | Actual | Actual | Actual |
| ESEA Title I Grants to Local Educational Agencies | \$ 19,616,547 | \$ 19,725,428 | \$ 19,832,876 | \$ 20,233,085 | \$ 23,692,674 | \$ 30,408,985 |
| Reading First State Grants | - | - | - | - | - | 186,733 |
| Even Start | 510,308 | 365,724 | 401,289 | 1,030,084 | 1,124,409 | 1,181,205 |
| State Agency Program--Migrant | 676,168 | 684,065 | 796,269 | 955,801 | 1,000,165 | 959,639 |
| State Agency Program--Neglected and Delinquent | 188,654 | 151,000 | 308,377 | 268,454 | 216,715 | 234,106 |
| Comprehensive School Reform (Title I) | 777 | 155,710 | 449,210 | 416,402 | 600,514 | 843,096 |
| Impact Aid Basic Support Payments* | 22,516,640 | 32,501,793 | 20,129,704 | 28,046,138 | 35,837,241 | Not Available |
| Impact Aid Payments for Children with Disabilities* | 1,845,469 | 851,830 | 2,144,820 | 2,020,403 | 1,519,640 | Not Available |
| Impact Aid Construction* | 133,939 | 39,392 | 104,819 | 1,479,449 | 1,886,390 | Not Available |
| Improving Teacher Quality State Grants** | 1,755,499 | 4,531,564 | 8,062,598 | 8,848,612 | 11,706,201 | 13,769,171 |
| Mathematics and Science Partnerships | - | - | - | - | - | 27,471 |
| Educational Technology State Grants | 154,197 | 2,320,052 | 2,926,071 | 3,320,556 | 908,880 | 1,145,128 |
| 21st Century Community Learning Centers | - | - | - | - | 6,143 | 825,990 |
| State Grants for Innovative Programs | 1,644,285 | 1,658,508 | 1,891,928 | 1,769,218 | 2,054,865 | 2,011,519 |
| State Assessments | - | - | - | - | 175,191 | 1,959,299 |
| Rural and Low-income Schools Program | - | - | - | - | 27,453 | 51,312 |
| Small, Rural School Achievement Program | - | - | 9,770 | 696,322 | 1,102,573 | 951,285 |
| State Grants for Community Service for Expelled or Suspended Students | - | - | - | - | - | 423,701 |
| Indian Education--Grants to Local Educational Agencies* | 1,286,294 | 1,394,208 | 1,291,134 | 1,779,766 | 2,038,229 | Not Available |
| Fund for the Improvement of Education--Comprehensive School Reform | 21,853 | 22,298 | 25,894 | 107,304 | 576,835 | 844,809 |
| Safe and Drug-Free Schools and Communities State Grants | 2,281,456 | 2,784,178 | 2,497,880 | 2,103,233 | 2,582,092 | 2,454,874 |
| Language Acquisition State Grants*** | 101,438 | 42,689 | 96,013 | 57,669 | 405,019 | 530,453 |
| Total, All of the Above Programs, which constitute the No Child Left Behind Act of 2001 | \$ 52,733,524 | \$ 67,228,439 | \$ 60,968,652 | \$ 73,132,496 | \$ 87,461,229 | |
| | | | | | | |
| Percent Increase From Prior SFY | | 27.5% | -9.3% | 20.0% | 19.6% | |
| | | | | | | |
| * = Direct federal funding to schools. | | | | | | |
| ** = Includes expenditures for Eisenhower Professional Development Grants and Class Size Reduction. | | | | | | |
| *** =Includes expenditures for Bilingual Education. | | | | | | |
| | | | | | | |

Sources: USDOE web site; SFY 1999 through SFY 2004 DLA's Schedule of Expenditures of Federal Awards; and, SDDOE School Annual Financial Report

Issues Involved in Estimating NCLB Costs

As indicated in our Purpose and Scope of Review statement at the beginning of this report, there are so many variables and unknowns that we cannot reasonably estimate what it will cost the State and local school districts of SD to fully implement NCLB. That being said, NCLB will likely have a significant fiscal impact on SD's educational system over the next decade based on (1) our research and review of other cost studies on NCLB, (2) discussions with local school district business officers and SDDOE staff, and (3) our superintendents' survey.

The State of Minnesota's, Office of Legislative Auditor report entitled *Evaluation Report- No Child Left Behind* stated that "Identifying and estimating NCLB-related costs is very challenging and can be quite subjective." It went on to report:

1. "The existing information system provided a limited basis for attributing state and local expenditures to NCLB.
2. Many NCLB-required activities have not yet been undertaken.
3. State and district officials had a difficult time deciding which costs to attribute to NCLB."

These same issues exist in SD. The SD school accounting system does not track NCLB expenditures separately. Because NCLB is only in its second year, many of the costs relating to school choice, transportation, supplemental educational services, corrective action and restructuring are just beginning to be encountered by schools in need of improvement. School officials also have a difficult time deciding what activity or part of an activity can or would be attributable to NCLB versus pre NCLB requirements.

There is also a difference in what types of costs are being measured. Attempting to determine the dollar cost of compliance with the requirements of NCLB is different than attempting to determine the costs of achieving the goals of NCLB. For example, costs incurred: to align the state's assessments with the educational content standards; reporting the results of the assessments to the parents of the children; sending letters to parents of children in schools in need of improvement; transportation of school choice children; and, professional development of teachers are examples of costs incurred by states to comply with the requirements of the law. If a state does not do these items, the Secretary of the USDOE can withhold a percentage or all of the administrative funding a state was allocated. On the other hand, costs incurred to achieve the goal of the NCLB, (all children being proficient in math and reading by 2013-2014), include such things as: hiring more highly qualified teachers; new technology; realigned curricula; restructured schools; new staff and management; etc. If a school or state does not achieve the goals of NCLB, there are no likely federal fiscal ramifications as long as the district and school are doing something to improve student proficiency. The Act itself states:

SEC. 9527. PROHIBITIONS ON FEDERAL GOVERNMENT AND USE OF FEDERAL FUNDS.

- (a) GENERAL PROHIBITION- Nothing in this Act shall be construed to authorize an officer or employee of the Federal Government to mandate, direct, or control a State, local educational agency, or school's curriculum, program of instruction, or allocation of State or local resources, or mandate a State or any subdivision thereof to spend any funds not paid for under this Act or incur any costs.

The State has a constitutional responsibility to provide a uniform system of schools free of charge to secure its people the opportunities and advantages of education. In compliance with the requirements of IASA prior to the NCLB Act, SD had established a definition of AYP for Title I schools that included 5% annual growth in reading and math proficiency for grades 4, 8, and 11. Although this was set for Title I schools, the constitution requires a uniform system of

education for the State. Arguably then, our system of education should have been expected to produce 5% improvement in math or reading proficiency for all students annually and that eventually (albeit perhaps not on the same time table as NCLB) our proficiency levels would have approached 100%. Ironically, if you take our 2003 AMO for K-8 math of 60% (under NCLB) and improve this by 5% per year (the old IASA goal), you end up with 100% proficiency in 2014 the same goal as NCLB itself.

The point here is that in order to compute the costs of achieving NCLB's goals, you first have to determine what the State's own goals were and then attribute the cost of getting from that point to 100% proficiency as the cost of NCLB. Since there were no stated proficiency goals for all students in SD prior to NCLB that we are aware of, there is no cost base from which to build the additional costs to be attributed to achieving the goals of NCLB.

NCLB Cost Areas

We gathered information on NCLB costs that may impact the State and/or the local school districts of SD. Although we do not offer a dollar estimate of NCLB costs, we do identify the expenditure areas that NCLB will most significantly affect. In our opinion these are (1) Development and Administration of Student Assessment/Testing; (2) Remediation Costs; (3) Compliance with Requirements Concerning Teacher and Paraprofessional Qualifications; and (4) Sanctions and Services for Low-Performing Schools. More detail on these cost areas follows.

1. Development and Administration of Student Assessment/Testing

NCLB requires states to implement a wide range of annual student assessments including reading and math assessments for each grade level between 3rd and 8th and once during the high school grades.

Improving American Schools Act (IASA) – the 1994 reauthorization of ESEA -already required states to develop comprehensive academic standards with curriculum-based tests that were to be administered annually at three grade levels, in both reading and math. Segregating costs that are strictly incremental to the new requirements of NCLB is very difficult. Since IASA already required testing in one grade in each grade span of 3-5, 6-9, 10-12, in math and English, only the costs incurred in developing, administering, scoring and reporting tests and test results for the additional 4 tests (grade 3, 5 6, and 7) can be attributable to NCLB. However, determining AYP was previously only required to be performed on Title I schools whereas under NCLB, all schools now must be included in the state's statewide accountability system. These are examples where it would be easier to isolate costs compared to other areas of NCLB where the distinction is much more difficult to discern.

The majority of the costs associated with developing the new tests were paid for by the SDDOE. In regards to costs already incurred to comply with NCLB, the SDDOE contracted with Harcourt to develop, distribute and administer the Dakota State Test of Educational Progress (STEP) tests. This includes scoring the tests and providing the data for report cards mandated by NCLB. Also, the SDDOE contracted with the Buros Institute of the University of Nebraska-Lincoln to align Dakota STEP so that it would accurately measure the achievement of the students. Buros Institute was also contracted with to conduct a standards setting process with the SDDOE to establish achievement levels for reading and math, grades 3-8 and 11. The SDDOE received a separate federal grant (State Assessments) of approximately \$3.6 million dollars per year for FFYs 2002, 2003, 2004 and projected for FFY 2005, to develop and administer

the tests. Funding for both the Harcourt and Buros Institute contracts comes from the State Assessments grant. As of June 30, 2004, approximately \$2.13 million has been expended on this area. Money from this grant is also being used to develop a science assessment which is required to be available by 2007.

The SDDOE has added four full-time equivalents (FTE) staff members that are directly or partially related to the implementation of NCLB. In SFY 2004 three FTE were added to the SDDOE staff. One FTE was added in Data Collection to primarily work with testing data, calculations of AYP, and other data related issues. One FTE was added for a Reading Curriculum Specialist to provide technical assistance to schools as a direct result of NCLB. One FTE was added in accounting, partially due to NCLB, but also as a result of an increase in various grants to the SDDOE and the position was needed to provide additional fiscal support. In SFY 2005, SDDOE added an additional FTE for a Science Curriculum Specialist position. In addition, as part of SDDOE's reorganization at the end of SFY 2003, two FTE's were changed to positions required by NCLB, a Math Curriculum Specialist position and the NCLB Coordinator position. SDDOE has a number of other positions that work with NCLB, but were existing positions that worked with the ESEA programs before the reauthorization and have not changed dramatically. These would include the Education Program Specialist positions and a couple of positions in Grants Management. Depending on the services provided, allocations for state administration and state level activities from the various NCLB programs has funded the SDDOE staff.

From our discussions with business officials, schools have incurred some incidental and increased personnel costs associated with having to administer the tests, but much of their costs are really opportunity costs. When NCLB changed how and to whom the tests were given, it imposed opportunity costs on the State and local school districts of SD. Time spent to develop, prepare for and administer the tests took away time from other purposes (which have value). For example, if NCLB requires pupils and teachers to spend two full days preparing for a proficiency test, the opportunity to use those two days for some other educational activity is lost.

2. Remediation Costs

The implementation of NCLB creates obligations for the State and local school districts of SD. Examples of these costs are evaluation of test results, technical assistance, development of school improvement plans, and curriculum changes.

So far, the impact of remedial costs on the State and the local school districts appears to be small. Also, it is difficult to determine how much of these costs are attributable to NCLB as the State had implemented or planned on implementing many of the needed requirements and components necessary to fulfill the mandates of NCLB. For example, SD already had a student information system, SIMS Net/DDN Campus. This saved both the State and local school districts time and money accumulating student data needed for NCLB.

3. Compliance with Requirements Concerning Teacher and Paraprofessional Qualifications

SDDOE officials did not believe any significant amount of costs would be incurred to meet the requirements to have highly qualified teachers and paraprofessionals and only 14% of the superintendents responding to our survey identified this as an area that would be the most costly requirement to implement under NCLB. If teachers are certified and teaching in the area they are certified in, they will be considered highly qualified. Existing teachers may

also take a subject specific test or meet one of the other “HOUSE Rules” (See Appendix A) to be considered highly qualified. For paraprofessionals, if they don’t have the minimum educational requirements, they can register to take the test which costs \$45 and receive a workbook to study from for \$25 each. If they pass the test, they will be considered highly qualified. While NCLB requires all teachers and paraprofessional to be highly qualified and the percentage of core academic curriculum classes being taught by highly qualified teachers being reported as part of the report card, there are no other penalties or sanctions for a school or district if classes are being taught by a “non-highly qualified “ teacher. The State has experienced an increase in the level of Title II – Improving Teacher Quality grants funding since FFY 2000. Funding increased approximately \$6.2 million or 81% to the FFY 2003 level of \$13.96 million. Funding since FFY 2003 has remained steady and is projected to \$13.96 million in FFY 2005. The Eisenhower Professional Development Grant and the Class Size Reduction Grant were combined under NCLB to create the Improving Teacher Quality Grants. See Table 3.2 on page 19.

4. Sanctions and Services for Low-Performing Schools.

The 1994 IASA Act and prior federal legislation did not contain any of the sanctions mandated in NCLB which will result in costs associated with school choice, transportation, supplemental educational services, corrective action and restructuring. The following table outlines the consequences of repeated failure on the part of the school.

Table 4.4: NCLB’s Consequences for Repeated Failure to Make AYP

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| <p>Failing to make AYP for 2 or more years—school choice</p> <p>After a second year of failing to make AYP, a Title I school is “identified for improvement” under NCLB. Such a school must develop a school improvement plan, and the school district must notify all parents of children in the school that they are eligible to transfer their children to a higher-performing school (that is, one that has not been “identified for improvement”). Districts can determine which of their higher-performing schools will be options from which eligible parents can choose. In cases where there are no other schools in the district to which students could transfer, the federal government requires districts “to the extent practicable” to establish agreements with other districts to allow for inter-district choices. If funds are insufficient to provide transportation to each student requesting a transfer, the district must give priority for transportation funding to the lowest-achieving eligible students from low-income families. In SD, the 2002-03 school year was the first year in which some districts were required to offer school choice under NCLB.</p> |
| <p>Failing to make AYP for 3 or more years—supplemental educational services</p> <p>If a Title I school fails to make AYP for three consecutive years, it must continue to offer school choice. In addition, its students from low-income families will be eligible to enroll in supplemental educational services outside the regular school day. These services must be “high quality, research-based, and specifically designed to increase the academic achievement of eligible children.” Eligibility for supplemental services is not limited to students in those grades or subgroups for which low performance resulted in the determination that the school did not make AYP. Public or private organizations apply to the SDDOE to provide supplemental services, and the department determines which organizations meet the state’s criteria. A school “identified for improvement” cannot provide supplemental services to its own students, but school districts (or individual schools) that have not been “identified for improvement” can apply to provide these services. Enrollment in supplemental services is voluntary. Once parents are notified of</p> |

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|---|
| <p>their child's eligibility for supplemental services, they may select from the state-approved providers serving that district. The staffs of supplemental services providers are not required to meet the NCLB provisions that apply to public school teachers and paraprofessionals. School districts must pay supplemental services providers the lesser of (1) the district's Title I, Part A per-child allocation or (2) the actual cost of the services. If funds are insufficient to provide supplemental services to each eligible student whose parent requests the services, the district must give priority to the lowest-achieving eligible students.</p> |
| <p>Failing to make AYP for 4 years (corrective action) or 5+ years (restructuring)</p> <p>If a Title I school fails to make AYP for four consecutive years, NCLB requires the school district to take "corrective action," including at least one of the following: (1) replacement of staff, (2) implementation of a new curriculum, (3) reduction of school-level management authority, (4) appointment of an outside expert to advise the school, (5) extending the school year or school day, and/or (6) restructuring the school. If an entire school district fails to make AYP for four consecutive years, the SDDOE would be required to take similar actions or to reduce district funding for programs or administrative purposes. In school year 2003 - 2004, SD had three schools in corrective action. In school year 2004 - 2005, one school is in corrective action and two schools in level four - restructuring. If a school fails to make AYP for five consecutive years, the district must plan for implementation of alternative governance arrangements, such as reopening the school as a charter school, contracting for the school's management, or turning school operations over to the SDDOE. Such plans would be implemented if the school fails to make AYP for a sixth year.</p> |
| <p>Sources: No Child Left Behind, §11116; U.S. Department of Education, Public School Choice: Draft Non-Regulatory Guidance (Washington, D.C., December 4, 2002); U.S. Department of Education, Supplemental Educational Services: Non-Regulatory Guidance, Draft—Final Guidance (Washington, D.C., August 22, 2003); U.S. Department of Education, LEA and School Improvement (Washington, D.C., January 7, 2004).</p> |

In 2003, SD had 737 schools with 196 schools not making AYP for at least one year and 32 schools classified as schools in need of improvement because they did not make AYP for 2 or more years. The number of schools in need for improvement grew to 109 schools in 2004 as originally reported. SDDOE has now completed the school appeal process as outlined in the accountability workbook, and based on data corrections submitted by the requesting schools, the total number of schools classified as schools in need of improvement is now 107. The increase in the number of schools in need of improvement in SFY 2004 was primarily a function of having two years of assessment results available for the first time for non-Title I schools. Prior to this point, only Title I schools were included in an accountability system for at least two years under IASA and transitioned into NCLB.

Schools in need of improvement are required to notify all parents of children in the school that they are eligible to transfer their children to a higher-performing school (that is, one that has not been "identified for improvement"). Districts can determine which of their higher-performing schools will be options from which eligible parents can choose. If funds are insufficient to provide transportation to each student requesting a transfer, the district must give priority for transportation funding to the lowest-achieving eligible students from low-income families. In SD, many of the school districts only have one elementary, one middle and one high school within the district. Out of the 165 school districts assessed for AYP, 135 school districts have no transfer options available to parents of students in schools that failed to make AYP. As a result, this requirement will have little impact for the majority of SD school districts.

Supplemental education services include tutoring and other academic enrichment services that are “high quality, research-based, and specifically designed to increase the academic achievement” of students. Only low-income children are eligible for supplemental educational services. The SDDOE determines which providers are authorized to provide these services and in 2004 approved sixteen entities as supplemental educational services providers. See Appendix H.

When a school fails to make its AYP target for three consecutive years (level 2), NCLB requires specific spending requirements for that school’s district. In general, unless a lesser amount is needed to provide choice-related transportation or satisfy all requests for supplemental educational services, the district must spend the equivalent of 20 percent of its Title I, Part A allocation on these activities. Of this 20 percent, the school district shall spend 5 percent for choice-related transportation and 5 percent for supplemental services. The district has the flexibility to determine how to allocate the remaining 10 percent between transportation and supplemental services. Districts can pay for choice-related transportation and supplemental services with their Title I funds, or they can use other allowable federal, state, local, or private revenues.

To provide some perspective on just what 20 percent of Title I Part A funds makes available for supplemental educational services, we computed estimates of the dollars available per eligible student for two schools that were on the in need of improvement list for 2004. The two schools chosen were the Florence and Newell elementary schools. Newell received approximately the median estimated amount per free and reduced eligible student from Title I Part A funds and Florence receives the lowest estimated amount of Title I Part A funds per free and reduced eligible student for 2003. We used our estimated amounts of Title I Part A funds per free and reduced eligible student from Appendix E for these examples. According to the SDDOE statistical digest, Newell and Florence school districts had 50.4% and 39.5% eligibility rates for free and reduced lunch for SFY 2003.

For each school, we estimated the number of low income students who might request supplemental educational services by multiplying the number of students in each school by the percentage of students eligible for free and reduced lunch and then multiplied this value by the percentage of students in the economically disadvantaged subgroup for the school that were below proficient. We then divided this number into 20 percent of each district’s Title I Part A funding to arrive at an estimate of the dollars that would be available for each student for supplemental educational services.

For the Newell and Florence elementary schools, these calculations resulted in an estimated \$558 and \$85 dollars per student being available respectively. Appendix H provides a table of approved supplemental service providers and the respective cost of their services. We are not attempting, based on this sample of two schools, to conclude whether Title I allocations are sufficient to pay for the costs of supplemental services, but rather, as we stated, to provide perspective.

Conclusions Regarding NCLB Costs

Because of the many unknowns and assumptions that would have to be made to calculate any sort of estimate of NCLB’s costs or form a judgment on the adequacy of federal funding to cover those costs, we have not done so. As we have indicated, one key determination to make before an estimate of NCLB’s costs can be made is what the base or the starting point would be. That is to say, what level of student proficiency did we want in SD and what sort of state funding would we have been willing to commit to achieve that level of proficiency before NCLB forced the issue. Since we suspect there would be no consensus on the answer to that question, there is likely then no estimate of NCLB’s costs that will be generally accepted.

